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Congress of the United States
House of Representatives
Washington, DC 20515-5401

Committee on the Budget

March 11, 2009

Chairman Spratt, Ranking Member Ryan, and distinguished Members of the Committee:

Thank you for the opportunity to comment on the Fiscal Year 2010 Budget. I will begin with a general remark on the President's Budget as outlined to Congress and then briefly highlight several matters of particular importance to the four million U.S. citizens I represent. I respectfully ask that you address these issues in your report and funding allocations.

I believe President Obama's submission to Congress represents a sound plan to jump-start the national economy in the short term and to lay a new foundation for growth over the long term. In my view, the Budget Resolution should embrace the President's plan in its broad contours.

Moving from the general to the specific, I urge the Committee to consider the following issues that are unique to Puerto Rico—or that concern both Puerto Rico and the other U.S. territories.

Health Care Reform

The first issue I would like to address is health care. The President's Budget reflects his commitment to fundamentally reform our health care system to provide quality care to all Americans. For Puerto Rico, true reform will be impossible unless changes are made to the way the Island is treated under Medicaid and Medicare. Recognizing this fact, President Obama has pledged—most recently in a letter to Governor Luis Fortuño—to “seek equal coverage of Puerto Rico” under these two programs.

Medicaid

With respect to Medicaid, Puerto Rico is subject to a cap that limits the amount the federal government can contribute to the Island's Medicaid program each year. No such cap applies in the states. Because Puerto Rico's cap is so low, the actual federal contribution to the Island's Medicaid program—its effective FMAP—is about 22%. The Puerto Rico government is responsible for the remaining 78%. By contrast, the minimum federal share for any state is 50%, and Medicaid programs in the poorest states can receive more than three-quarters of their funding from the federal government. The harm caused to patients in Puerto Rico and to the local government's finances is difficult to overstate. For this reason, President Obama has promised “to continually rais[e] the cap on federal contributions to Medicaid in Puerto Rico until it disappears.” I respectfully request that the Budget Resolution honor this commitment.

Medicare

President Obama has also pledged to provide equal treatment to Puerto Rico under Medicare. Although Island residents pay the same Medicare payroll taxes as their fellow citizens in the states, Puerto Rico is treated worse than the states under this federal program in at least four respects.

First, Puerto Rico is the only jurisdiction under the Prospective Payment System where hospitals do not receive 100% of the national payment rates. Instead, payments to Island hospitals are derived from a unique formula based on 75% national rates and 25% local costs. This formula yields per patient payments to Puerto Rico hospitals that are considerably lower than the payments made to stateside hospitals.

Second, Puerto Rico hospitals serving large numbers of low-income patients do not receive fair DSH reimbursement because SSI, a major factor in calculating such payments, has not been extended to the Island. A commonsense short-term solution—to simply adjust the DSH formula to account for Puerto Rico's particular situation—has not been adopted by Congress to date.

Third, Puerto Rico is the only U.S. jurisdiction where individuals enrolled in Part A are not automatically enrolled in Part B. The result is that Puerto Rico has the lowest Part B participation in the country and Puerto Rico seniors pay millions of dollars in recurring late enrollment fees each year.

Finally, whereas the states receive federal subsidies—based on need—to help their low-income residents purchase prescription drugs under Part D, Puerto Rico receives only a limited block grant for this purpose.

In light of these disparities, as well as President Obama’s stated intentions, I respectfully ask that the Budget Resolution provide equal treatment for Puerto Rico under Medicare.

Assistance to Working Families and Students

The second issue I wish to raise is federal assistance to working families and students.

Let me first address the refundable child tax credit program. Workers in Puerto Rico with three or more children are eligible for CTC assistance based on payroll taxes, but Island workers with one or two children are not. President Obama has expressed support for including low-income Puerto Rico workers with one or two children in the CTC program. The final federal budget should reflect this extension.

In addition, both the Making Work Pay credit for workers and the refundable portion of the American Opportunity credit for students have been extended to Puerto Rico through block grants that will enable the Island’s local treasury to provide this assistance. Since the President’s

budget would make both forms of assistance permanent, I respectfully request that the final budget account for these grants to Puerto Rico.

Furthermore, I note that the President's Budget would expand the Earned Income Tax Credit. Under current law, working families in Puerto Rico are not eligible to receive the EITC. The 2008 Democratic National Platform specifically pledged to provide "equitable treatment to the U.S. citizens in Puerto Rico [under] programs providing refundable tax credits to working families." I respectfully ask that the final budget reflect this commitment.

Other Tax Issues and Programs

The last topic I would like to raise with this Committee involves two other tax-related programs.

For over 90 years, a percentage of the excise tax collected by the federal government on rum produced in Puerto Rico and imported to the states has been transferred to the Island's treasury. Current law provides for \$13.25 of the \$13.50 per proof gallon tax collected by the federal government to be "covered over" in this manner. The law providing for \$2.75 of this amount to be transferred will expire at the end of this fiscal year. That provision has been regularly extended in the past, and I would ask that the final budget account for a further extension.

Lastly, Section 199 of the Internal Revenue Code provides a tax deduction for domestic manufacturing. The deduction applies to income from domestic subsidiaries in Puerto Rico of companies based in the states. This deduction expires at the end of the fiscal year. In order to provide parity with the states, the final federal Budget should include a permanent extension of this deduction in Puerto Rico.

Mr. Chairman and Members of the Committee: thank you very much for your consideration of my requests.